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U.S. Small Business Administration

Thank you for inviting me to speak to you about the Small Business Administration and discuss the critical role SBA loans play in creating jobs and leading us to full economic recovery.

The reason it's so important that we are discussing this issue today is clear; small businesses create about two of every three new jobs each year in the United States. In Michigan, virtually all of the net new jobs generated over the last decade have come from small business. Nationally, small businesses employ 50.8% of the private sector workforce while in Michigan 51.5% are employed by small businesses. Not surprisingly, based on Michigan's industrial past, most people do not understand that Michigan is even more reliant on small business than the rest of the country as a whole.

Last year, Federal Reserve Chairman Bernanke led a roundtable of lenders in Detroit to discuss the credit crisis. I think he put it best when he said that meeting the needs of creditworthy borrowers is – quote – “good for the borrower, good for the lender, and good for our economy.” To steal a phrase used often in the past, what's good for small business is good for the country.

The biggest challenge facing small businesses right now is that many creditworthy borrowers still can't find the capital they need. It's not just the small firms that are struggling, but those that are growing, ready to expand and hire more workers, that are having difficulty in obtaining the financing they need. That's where SBA loan programs play a vital role. Let me begin by providing an overview of our loan programs and how they work.

The 7(a) Loan Guaranty Program is SBA's primary program to help start-up and existing small businesses obtain financing. The SBA works with most of the banks in Michigan and a few credit unions. For regular 7(a) loans, participating lenders agree to structure loans according to SBA's requirements and receive a guaranty that is 85% for loans under \$150,000 and 75% over \$150,000 up to the maximum amount of \$5 million. Loans can be made for almost any business purpose, including working capital, machinery and equipment, furniture and fixtures, land and building, leasehold improvements, and debt refinancing. Loan maturity is up to 10 years for working capital and up to 25 years for fixed assets.

The process for the business is simple; the business works with the lender. The lender, in turn, works with SBA and provides our forms to the business. What is important to understand is the reason why lenders use the SBA guaranty. Every lender must certify that it could not provide the same loan without the guaranty and provide specific reasons. The following are the most widely cited reasons for using the SBA guaranty; insufficient collateral to secure the debt requested, the business needs a longer maturity to pay back the loan, the industry or economic conditions are considered too risky for the lender's current lending practices, the loan exceeds the lender's legal lending limits (the guaranty portion is excluded from those limits), and the lender needs the liquidity provided by the sale of the guaranteed portion on the secondary market.

Within the regular 7(a) program there are a variety of programs that are designed to various small business financing needs. The most popular program used by lenders is *SBAExpress* which provides lines of credit to support the cash flow needs of their customers. Lenders are allowed to use their own applications and documents to approve the loans and have unilateral approval authority so there is no review by SBA. For this flexibility, SBA guarantees only 50% of the loan. The cap on these loans was temporarily increased from \$350,000 to \$1 million under the Small Business Jobs Act.

Using the same criteria as the *SBAExpress*, the Patriot Express Program is designed for small businesses that are 51 percent or more owned by veterans or members of the military community. Under this program, SBA gives the maximum guarantee allowed under the 7(a) program and increases loan limits to \$500,000.

Also within 7(a) there are several export loan programs targeted to support export opportunities of small businesses. SBA can guaranty up to 90 percent on these loans to ensure that qualified exporters do not lose viable export sales due to a lack of capital.

To further expand access to capital, SBA has just introduced the Small Loan and Community Advantage Programs as well as a newly revised Dealer Floor Plan Financing Program. The Advantage Programs use a streamlined loan application with the full guaranty for loans up to \$250,000. By streamlining the process for 7(a) loans and providing a the regular 7(a) government guarantee on small-dollar loans, we are making it more attractive to lenders to make small dollar loans and as a result increase the number of loans going to small businesses and entrepreneurs in underserved communities.

The revised Dealer Floor Plan Pilot Program provides floor plan lines from \$500,000 to \$5,000,000. The original pilot program was not used as widely as hoped and was ended last September. The revised program has been significantly reworked and appears to be garnering much more interest from the large floor plan lenders so we anticipate a much greater participation and availability of this financing for auto dealers, boat retailers and the manufactured home industry.

Separate from the 7(a) program, the 504 Program provides small businesses with long-term, fixed-rate financing to acquire major fixed assets. The program requires at least 10 percent borrowers' equity, a loan of 50 percent

of the project made by a commercial lender, and loan for the remaining 40 percent of the project made through an SBA Certified Development Company, backed by a 100 percent-guaranteed SBA debenture. The 50% lender receives a first lien on the assets financed while the SBA debenture is in second position. This allows a small business to receive long-term fixed rate financing at very favorable rates and terms and a low down payment.

SBA also has a Microloan program that provides alternative financing to entrepreneurs who cannot access conventional or SBA guaranteed loans. SBA provides loans to local nonprofit organizations that relend those funds in the form of microloans in targeted areas served by the microlender which means that this program is not available in some areas of the state. Microloans have helped restaurants, service and retail business get the initial seed money necessary to start and grow.

Let's take a look at the results of SBA loan programs since the fall of 2009. When the financial crunch and resultant recession hit in the fall of 2009, SBA loan programs also took a big hit. Our loan volumes fell by 66% in Michigan through the first six months of our fiscal year. Congress passed the Recovery Act in February 2009 and SBA enacted its major provisions for our loan programs in March. Those provisions called for a waiver of our upfront guaranty fees and increased the maximum guaranty to 90% for most of the 7(a) loan programs. The result was a dramatic upturn in SBA loans with weekly loan volumes doubling for the remainder of the fiscal year. In fiscal 2009, we guaranteed 1,081 loans to Michigan small businesses through the 7(a) loan guaranty program for a total of \$234.8 million. Under our 504 program, we approved 152 loans for \$74.5 million.

Fiscal 2010 showed improving loan activity, but was hampered by the Recovery Act provisions being repeatedly extended for short durations that caused a great deal of uncertainty about their availability. Those provisions were not available for the last four months of the fiscal year and again loan volume fell markedly.

In fiscal 2010, we guaranteed 1,406 loans to Michigan small businesses through the 7(a) program for a total of \$382.5 million. The number of loans was up by 34% and loan dollars were up by 63% compared to fiscal 2009. Under our 504 program, we approved 208 loans for \$94.5 million. This was an increase of 37% in numbers and 27% in dollars from fiscal 2009. In 2010, our microloan intermediaries made 43 loans worth \$967,642, helping the smallest of businesses grow.

In late September, 2010, Congress passed the Small Business Jobs Act and the President signed it into law on September 27. This Act made a number of permanent and temporary changes to our loan programs including the reinstatement of the fee waivers and the 90% guaranty until the end of December, 2010. The Act also permanently increased the maximum 7(a) and 504 loan from \$2 million to \$5 million.

Another provision of the Small Business Jobs Act allows for the refinancing of fixed asset loans using 504 loans. As I'm sure you are aware, many owner-occupied small businesses have commercial real estate mortgages that need to be refinanced in the next year or two, but are having problems in finding lenders willing to refinance that existing debt. That's why the Small Business Jobs Act temporarily expanded the 504 program to allow the refinancing of fixed asset debt that meets certain criteria. Business owners can refinance up to 90 percent of the current appraised value of the collateral backing the loan, or 100 percent of the outstanding principal, whichever is lower, plus 504 eligible refinancing costs.

Fiscal 2011 got off to a great start! Loan activity for the first quarter increased by 98% and total dollars increased by 151% compared to first quarter 2010. This was particularly gratifying since the 2010 totals were a significant increase compared to the first quarter of 2009. In fact, the total dollars for both 7(a) and 504 in first quarter 2011 has already exceeded fiscal 2009 totals for the entire year! The percent increases in Michigan exceeded those at the Midwest Regional and National levels. During this time period, 90 lenders made 7(a) loans compared to 66 lenders last year. Since the end of December, activity has slowed, but not as markedly as in the past.

Through February 25, 2011, 899 7(a) loans have been approved for \$351.2 million and 110 504 loans have been approved for \$50.7 million. If this rate continues, the total dollars provided through these programs will reach record levels well before the end of the fiscal year.

Before I close, I'd like to point out that Michigan has a rich and diverse entrepreneurial support system that is nationally recognized. SBA provides funding to three Women's Business Centers, the SCORE Association, VetBizCentral, and the Michigan Small Business and Technology Development Center. The Women's Business Centers, located in Ann Arbor, Benton Harbor, and Grand Rapids, provide individualized services that address the needs of women entrepreneurs. SCORE, Counselors to America's Businesses, is comprised of volunteers with backgrounds as varied as the businesses they help. In Michigan there are nine SCORE Chapters with more than 40 service locations making available the services of their 350 counselors. VetBizCentral is a full-service organization that provides excellent support for Michigan's veteran owned small businesses.

The Michigan Small Business and Technology Development Center is jointly sponsored by the SBA, the State of Michigan through the MEDC, Grand Valley State University, and a host of local partners that support 12

regional and over 30 satellite offices. Each center provides counseling and training to small business owners and effectively covers all 83 counties in Michigan. The State Headquarters, located at Grand Valley State University, manages teams of certified, credentialed small business consultants who provide counseling, training, research and advocacy for new ventures, existing small businesses and innovative technology companies.

It's important to recognize these services in a discussion of credit issues because many business owners are not fully prepared when they seek financing. Often their loan requests or financial information isn't organized or readily available and the lender has no foundation on which to make a positive decision. Our resource partners work with the business to help them get "lender" ready and improve their chances of obtaining the financing they need.

Let me share three examples of how SBA loans have helped Michigan Businesses.

Greenfield Collision received a \$463,500 loan guaranteed at 90 percent by the SBA to buy its 20-bay, 11,000-square-foot building in Washington Township, which the owners had been leasing. This deal was one of the first loans made under the Recovery Act. The owners were able to save \$2,000 a month in lease costs and retain ten employees.

The owners of Big Powderhorn Mountain Resort, located in the Western Upper Peninsula, received an SBA guaranteed loan of \$1.76 million from a community bank to purchase the resort. The acquisition allowed the business to retain 17 full time and 183 seasonal workers and create significant economic impact in the region.

This company also received assistance from our resource partner, the Michigan Small Business & Technology Development Center.

And finally, Quest Industries in Lapeer, a precision tooling, machining, prototyping and pre-production shop received an SBA 504 loan of \$395,000 which will add four new positions and continue to support the local economy. The Michigan Small Business and Technology Development Center worked with Quest Industries on marketing, site selection, cash flow, workforce development, growth strategies, and financing.

That concludes my prepared remarks. I'd be delighted to answer any questions you may have. Thank you.